

JEFFERSON COUNTY COMMISSION



BETTYE FINE COLLINS - PRESIDENT
GEORGE F. BOWMAN
JIM CARNS
BOBBY HUMPHRIES
SHELIA SMOOT

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United States Department of Justice
The Honorable Assistant Attorney General Thomas Perez
Civil Rights Division
900 Pennsylvania Ave, NW
Washington, D.C. 20530-0001

October 20, 2010

Re: Jefferson County, AL
Bond Indebtedness

Dear Mr. Perez:

Jefferson County, Alabama is currently in a disastrous financial crisis; this is a direct result of bad financial advice and public official corruption.

I am writing to you today, seeking help for Jefferson County citizens in Jefferson County Districts 1 and 2. I ask that you participate in finding a remedy for this financial situation, as it is directly having a disparate impact within the poor and the black communities, who are the majority in this sewer debacle.

We were informed by consultants, hired by the Commission President that only forty percent of the county's residents actually pay sewer bills and that eighty percent of that number are poor and black. We were further informed that sewer rates will continue to increase, estimating that each tax payer living below the federally established poverty level will be required to pay approximately twelve to fifteen percent of their yearly net income over the next forty plus years to cure this sewer debt crisis. The negative impact of these rates will reverberate throughout the local economy potentially causing the economic collapse of Jefferson County and untold suffering for those who can least afford it; this includes loss of possible accumulated family wealth and decrease in property values.

To make matters worse; approximately two billion dollars of the County's debt is tied to criminal activity by elected officials, bankers, contractors and lawyers.

The Jefferson County Commission is composed of five districts, each represented by an elected Commissioner, these Justice Department approved districts consist of three predominantly white and two predominantly poor and black districts. These poor and black districts are populated by eighty percent of the sewer customers and rate payers.

Attached you will find a timeline supporting these statements.

With this letter we ask for your immediate attention and whatever actions within your power to correct this wrong and protect the affected communities in Jefferson County.

Sincerely,

A handwritten signature in cursive script that reads "George F. Bowman".

Major General (Ret.) George Bowman
Jefferson County Commissioner, District 1

Enclosure
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Attached as Exhibit 1 is the SEC initial complaint against Langford, Pierre and Blount accusing them of petty thievery. This complaint focused on low level players in the fraudulent and criminal activity in Jefferson County, Alabama. The big fish in this scenario are the persons who stole over \$400 million dollars from the sewer rate payers of Jefferson County.

Attached as Exhibit 2 is a diagram prepared by our firm showing that in order to comply with the consent decree the County issued conventional fixed rate bonds in the amount of \$2,860,130,000. This point was totally missed in the complaint attached as Exhibit 1 which states:

21. Jefferson County's sewer revenue bond offerings began in the 1990s pursuant to a consent decree with the U.S. Environmental Protection Agency and the U.S. Department of Justice to renovate the County's sewer system. *To fund the improvements, the County commission approved issuing more than \$3 billion in*

variable interest rate bonds between 2001 and 2004. (Emphasis supplied)

22. In connection with the bond offerings, the County simultaneously entered into 18 swap agreements, with a current notional amount of \$5.6 billion. A

swap agreement is an agreement between two parties to exchange interest payments on a specified principal amount (referred to as the notional amount) for a specified period of time. (see complaint sect IV Facts p 8).

The complaint starts with the incorrect facts regarding issuance of variable rate bonds : "To fund improvements, the County commission approved issuing more than \$3 billion in variable interest rate bonds between 2001 and 2004." Why is this incorrect? Because the improvements were funded with fixed rate bonds as detailed in the box in the left hand corner of exhibit 2. The criminal activity which took ratepayer money started with the issuance of variable rate bonds after the money for the payment of construction costs for improvements in compliance with the consent decree had been raised.

Note that Jefferson County as a result of bribery, travel act violations, theft of public funds, wire fraud, etc, issued \$3,047,290,000 in variable rate Bonds to Refund \$2,675,035,000 in remaining Principal on the fixed rate bonds. A Difference of \$372,255,000.

The issuance of these variable rate bonds was not related to funding the improvements. All the money for improvements to the system is contained in construction trust accounts established when the fixed rate bonds were issued.

The object of the conspiracy was to generate fees from swap transactions on variable rate bonds. In order to do this the perpetrators issued \$372,255,000 ~~in~~ more in variable rate bonds than the fixed rate bonds **which \$372 million was not used to pay for improvements to renovate the system. No new money for improvements was included in the variable rate refunding bonds but the principal amount went up \$372,255,000 over the remaining unpaid principal on the fixed rate bonds. This \$372 million difference is a theft from the rate payers of Jefferson county.**

You cannot do lucrative swaps on fixed rate bonds. You first have to convert them to variable rate bonds. In order to do the variable rate bonds which allowed the generation of fees which were charged in the complaint only against low level coconspirators, the co-conspirators stole \$372,255,000 from the rate payers. This amount was transposed into huge markups in the swaps stolen by the swap providers and huge legal underwriting and financial advisory fees to other coconspirators.

The fixed rate bonds averaged about 4.5% interest. The maximum rate on the variable rate bond was 10% or more as shown by the chart prepared by our firm and attached as Exhibit 4. The coconspirators were not just the three low level employees charged by the SEC but the persons mentioned in the Birmingham News article attached as Exhibit 3, and others who converted the additional \$372 million in additional principal to be repaid by the ratepayers in the variable rate bonds over and above the money raised for improvements, into payouts to themselves.

Given the misstatement of the facts from the SEC complaint it is not hard to believe the \$372 million in variable rate bonds which did not fund any improvements, but funded the swaps and profits from the swaps, was missed by the SEC investigators. Unless you trace the money as we did in Exhibit 2 you cannot see the \$400 million of cash flowing into the pockets of coconspirators because the different refunding variable rate bonds refunded different pieces of the fixed rate bonds. Even a very smart SEC lawyer who is not in the bond business everyday would not necessarily know how to trace the refunding cash flows to show how the extra \$372 million was generated. Unless you understand that no improvements were purchased by this increase in principal of \$372 million, and the additional \$372 million in variable rate bonds therefore had to be issued for something other than improvements, and this ‘something’ was benefits only to the coconspirators receiving fees and profits from the swaps, you cannot understand this theft.

For example once the variable rate bonds were issued the coconspirators entered into swaps that contained markups of \$150 million over market value. We have the detail on this, the amount of negative arbitrage required to issue the variable rate bonds and all of the numbers showing how the theft was perpetuated, but unless you can get the basic principle that the fixed rate bonds of \$2.75035 billion is all that was raised for improvements to the system and the additional principal of the variable rate bonds of \$372 million over the remaining \$2.675035 billion of fixed rate principal is theft and other criminal activity—not just the loans and Rolexes in the complaint—this is another Madoff situation the regulators will have missed. A massive fraud involving hundreds of millions of dollars is never going to show up like a Rolex watch of \$50,000 loan. It has to be unraveled to become apparent to the regulators.